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SUBJECT: KAZAKHSTAN - BAKER HUGHES SAYS BUSINESS IS GOOD AND ABOUT  
TO GET BETTER

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SUMMARY  
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¶1. (SBU) Baker Hughes Country Director for Kazakhstan Don McKelvie and Houston-based Government Relations Director Jennifer Cutaia told the Ambassador on September 10 that their company's business in Kazakhstan is good and will likely get even better, once Tengizchevroil (TCO) completes construction and installation of new drilling rigs in about a year's time. Baker Hughes intends to move its Kazakhstan headquarters to Aktau, is committed to local content, and has had some difficulties obtaining hazardous materials permits and work permits for expat staff, McKelvie and Cutaia explained.  
End Summary.

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CHANGE IN DRILLING TACTICS AT TENGIZ  
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¶2. (SBU) Baker Hughes Country Director for Kazakhstan Don McKelvie and Houston-based Government Relations Director Jennifer Cutaia told the Ambassador on September 10 that their company's previous tax problems have all been resolved and a separate financial police investigation has concluded with no long-term implications for the company's work in Kazakhstan. McKelvie said future business development opportunities in Kazakhstan are "enormous", particularly at Tengizchevroil (TCO), where Baker Hughes -- although not involved in current exploration and production activities -- recently responded to a tender for non-core and future generation development services. McKelvie said that TCO is changing its drilling approach and will build onshore platforms and use extended, directional drilling technologies to lower costs and reduce its environmental footprint. McKelvie indicated that due to the change in approach, TCO will not require new drilling services for another year.

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NEW DRILLING SERVICES FACILITY IN AKTAU  
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¶3. (SBU) McKelvie told the Ambassador that Baker Hughes is building a new 25,000 square meter drilling and completion services facility in Aktau and will move its Kazakhstan headquarters there from Almaty once construction is complete. Baker Hughes purchased the land for approximately \$2 million and plans to invest approximately \$30 million to construct the facility.

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COMMITMENT TO LOCAL CONTENT  
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¶4. (SBU) According to McKelvie and Cutaia, Baker Hughes has made a serious commitment to national content and local suppliers and is well within reach of its stated goal for Kazakhstanis to comprise 90% of its staff. McKelvie said that Baker Hughes offers up to 18 months of formal training in Houston, Aberdeen, or Abu Dhabi for Kazakhstani petroleum engineers, which is followed by an intensive on-the-job training program. He said that the company is satisfied with the performance of its local engineers, but admitted that Baker

Hughes has had difficulty building local capacity among machine shop technicians. (Note: As an oil services company, Baker Hughes is not subject to the national content requirements of oilfield production until it joins a production consortium. Its high percentage of local national staff can therefore be a competitive advantage by making Baker Hughes an attractive partner for exploration and production companies. End note).

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SOME DIFFICULTY SECURING PERMITS  
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15. (SBU) McKelvie told the Ambassador that Baker Hughes continues to encounter difficulty securing permits for radioactive and explosive materials, as well as work permits for international staff, particularly those without a university degree who technically do not qualify for category three Kazakhstani work permits. The Ambassador expressed confidence that the work permit issue would resolve itself once Kazakhstan accedes to the World Trade Organization (WTO). He reassured McKelvie and Cutaia that the Kazakhstani government is working diligently on WTO accession.

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